

## D

## The Federal Sector of the National Income and Product Accounts

**T**he federal budget is not the only yardstick used to measure the federal government's revenue and spending activity. The federal sector of the national income and product accounts (NIPAs), produced by the Department of Commerce's Bureau of Economic Analysis (BEA), measures that activity in economic terms. Thus, the NIPAs group the government's revenues and spending into categories that contribute to gross domestic product (GDP), income, and other macroeconomic totals, thereby helping to show the relationship between the federal sector and other areas of the economy. Although the categories of classification in the federal budget and the NIPAs differ significantly, the totals of the two measures are comparable. Over the 2004-2013 period, NIPA receipts and expenditures exceed the corresponding budget figures by roughly 1 percent.

### The Relationship Between the Budget and the NIPAs

A number of major differences distinguish how federal receipts and expenditures are treated in the NIPAs from how they are accounted for in the total (or unified) budget (see *Table D-1*). For example, the NIPAs shift certain items from the spending to the receipts side of the ledger to reflect intrabudgetary or voluntary payments that the budget records as negative outlays. Such shifts are referred to as *netting and grossing* adjustments and do not affect the surplus or deficit.

In contrast, other differences between the two accounting methodologies affect the surplus or deficit that each reports. The NIPA totals (but not the budget's) exclude government transactions that involve an exchange of existing assets and that therefore do not add to or subtract from current income and production. Prominent among such *lending and financial* adjustments (as they are termed in *Table D-1*) are those for deposit insurance outlays, cash flows for direct loans made by the government before credit reform, and sales of government assets. Other factors that separate the NIPAs' accounting from that of the budget include *geographic adjustments* (the NIPAs exclude Puerto Rico, the Virgin Islands, and a few other areas) and *timing adjustments* (the NIPAs correct for such things as irregular numbers of benefit checks in a year or shifts in the timing of corporate tax payments).

In the national economic accounts, contributions for *government employee retirement* are considered the personal income of federal workers covered by the retirement funds and therefore are not counted in the federal sector of the NIPAs. As a result, outlays from those funds are also treated as transactions outside the government sector of the economy.

*Intragovernmental transfers* are an adjustment made to the NIPA totals to account for payments that the government makes to federal entities whose activities are not counted as part of the budget. Nearly all such transfers involve the financing of credit programs.

**Table D-1.**

## Relationship of the Budget to the Federal Sector of the National Income and Product Accounts

(In billions of dollars)

	Actual											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Receipts</b>												
Revenues (Budget) <sup>a</sup>	1,853	1,922	2,054	2,225	2,370	2,505	2,648	2,798	2,949	3,220	3,480	3,674
Differences												
Netting and grossing												
Medicare premiums	26	28	31	33	36	39	42	45	49	54	59	64
Deposit insurance premiums	*	*	1	*	1	1	1	2	2	2	2	2
Government contributions for employee OASDI and HI	12	12	13	14	15	16	17	18	19	20	21	22
Other	10	11	8	7	7	7	6	5	4	2	1	*
Geographic adjustments	-4	-4	-4	-4	-4	-5	-5	-5	-5	-6	-6	-6
Contributions for government employee retirement	-5	-4	-4	-4	-4	-4	-4	-4	-4	-3	-3	-3
Estate and gift taxes	-27	-22	-24	-21	-24	-20	-22	-23	-15	-19	-43	-47
Universal Service Fund receipts	-5	-6	-7	-7	-7	-7	-7	-7	-7	-7	-8	-8
Timing shift of corporate estimated tax payments	-23	0	7	-7	0	0	0	0	0	0	0	0
Other	<u>75</u>	<u>-5</u>	<u>2</u>	<u>1</u>	<u>*</u>	<u>2</u>	<u>1</u>	<u>*</u>	<u>1</u>	<u>*</u>	<u>*</u>	<u>*</u>
<b>Total Difference</b>	<b>59</b>	<b>11</b>	<b>21</b>	<b>13</b>	<b>20</b>	<b>29</b>	<b>29</b>	<b>30</b>	<b>44</b>	<b>43</b>	<b>22</b>	<b>24</b>
Receipts (NIPAs)	1,913	1,933	2,076	2,238	2,390	2,534	2,677	2,828	2,993	3,263	3,502	3,698
<b>Expenditures</b>												
Outlays (Budget) <sup>a</sup>	2,011	2,121	2,199	2,298	2,387	2,479	2,583	2,695	2,809	2,943	3,029	3,167
Differences												
Netting and grossing												
Medicare premiums	26	28	31	33	36	39	42	45	49	54	59	64
Deposit insurance premiums	*	*	1	*	1	1	1	2	2	2	2	2
Government contributions for employee OASDI and HI	12	12	13	14	15	16	17	18	19	20	21	22
Other	10	11	8	7	7	7	6	5	4	2	1	*
Lending and financial adjustments	15	13	10	17	16	12	11	6	7	7	8	8
Geographic adjustments	-12	-13	-14	-14	-15	-15	-16	-16	-17	-18	-19	-20
Timing adjustments	7	2	0	-12	3	9	0	0	0	-14	14	0
Contributions for government employee retirement	37	38	39	40	41	43	44	45	47	49	50	52
Intragovernmental transfers	-7	-7	-6	-6	-5	-4	-2	-1	1	2	4	6
Capital transfers	-44	-47	-48	-48	-49	-49	-50	-51	-52	-53	-55	-56
Treatment of investment and depreciation	-12	-12	-15	-17	-20	-23	-26	-29	-33	-36	-40	-45
Universal Service Fund payments	-5	-6	-6	-6	-6	-7	-7	-7	-7	-7	-7	-7
Other	<u>2</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>
<b>Total Difference</b>	<b>28</b>	<b>18</b>	<b>11</b>	<b>7</b>	<b>23</b>	<b>26</b>	<b>18</b>	<b>15</b>	<b>18</b>	<b>5</b>	<b>35</b>	<b>25</b>
Expenditures (NIPAs)	2,039	2,138	2,211	2,306	2,409	2,505	2,601	2,709	2,826	2,948	3,064	3,192

(Continued)

**Table D-1.**  
**Continued**

(In billions of dollars)

	<b>Actual</b>											
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>Deficit (-) or Surplus</b>											
Deficit (-) or Surplus (Budget) <sup>a</sup>	-158	-199	-145	-73	-16	26	65	103	140	277	451	508
Differences												
Lending and financial adjustments	-15	-13	-10	-17	-16	-12	-11	-6	-7	-7	-8	-8
Geographic adjustments	9	10	10	10	10	10	11	11	12	12	13	14
Timing adjustments	-30	-2	7	5	-3	-9	0	0	0	14	-14	0
Contributions for government												
employee retirement	-42	-42	-43	-44	-45	-47	-48	-49	-51	-52	-54	-55
Intragovernmental transfers	7	7	6	6	5	4	2	1	-1	-2	-4	-6
Capital transfers	44	47	48	48	49	49	50	51	52	53	55	56
Treatment of investment and depreciation	12	12	15	17	20	23	26	29	33	36	40	45
Universal Service Fund payments	*	*	*	*	*	*	*	*	*	*	*	*
Estate and gift taxes	-27	-22	-24	-21	-24	-20	-22	-23	-15	-19	-43	-47
Other	<u>74</u>	<u>-4</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Total Difference</b>	<b>32</b>	<b>-7</b>	<b>10</b>	<b>5</b>	<b>-3</b>	<b>3</b>	<b>11</b>	<b>16</b>	<b>26</b>	<b>37</b>	<b>-13</b>	<b>-1</b>
Deficit (-) or Surplus (NIPAs)	-126	-206	-135	-68	-19	29	76	119	167	314	438	506

Source: Congressional Budget Office.

Note: \* = between -\$500 million and \$500 million; OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes Social Security and the Postal Service; assumes that discretionary budget authority for 2003 totals \$751 billion.

The government's *capital transfers*—which include grants to state and local governments for highways, transit, air transportation, and water treatment plants—are transactions in which one party provides something (usually cash) to another without receiving anything in return. Those transactions are linked to, or are conditional on, the acquiring or disposing of an asset. Because such transactions shift existing assets from one party to another, they do not affect disposable income or production. Therefore, they are not counted in the NIPAs, although they are counted in the budget.

The NIPAs and the budget also differ in their *treatment of investment and depreciation*. The budget reflects all expenditures that the federal government makes, including its investment purchases of items such as buildings and aircraft carriers. The NIPAs show the current, or operating, account for the federal government; thus, they exclude government investment and include the govern-

ment's consumption of fixed capital, or depreciation. (Government investment, although included in the NIPAs' calculation of GDP, is not part of its measure of federal expenditures.)

The *Universal Service Fund*, which is administered by a nonprofit entity, receives funds from providers of telecommunications service and disburses those funds to providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. As a result, the fund's receipts and payments are classified in the NIPAs as intracorporate transfers.

The *other* category for receipts includes a number of measurement factors that are generally small. For 2002, however, that category is unusually large. One contributing factor is the treatment of final payments for income tax liabilities (payments for the balance of taxes due and refunds of overpayments, generally made between February

and May). The budget records settlements in the fiscal year in which they are paid. But the NIPAs spread those receipts evenly over the four quarters of the calendar year in which they are paid, which moves some receipts into the last quarter of the calendar year and thus into the subsequent fiscal year. As a result, NIPA receipts decrease by less than budget receipts do when there is a significant drop in final settlements, as there was in fiscal year 2002 (see the discussion in Chapter 3). In addition, it is also quite possible that the NIPA measure of receipts for 2002 will be revised downward when the accounts are updated this summer.

## The Government's Receipts and Expenditures as Measured by the NIPAs

The federal sector of the NIPAs generally classifies receipts according to their source (*see Table D-2*). Taxes and fees paid by individuals are the leading source of government receipts in the 2003-2013 period. The next category in terms of size is contributions (including premiums) for social insurance programs—a category that includes Social Security taxes, Medicare taxes and premiums, unemployment insurance taxes, and federal employees' retirement contributions. The remaining categories of receipts are accruals of taxes on corporate profits, including the earnings of the Federal Reserve System, and indirect business tax and nontax accruals. (Examples of indirect business taxes are customs duties and excise taxes. Nontax accruals include deposit insurance premiums.)

The government's expenditures are classified according to their purpose and destination. Defense and nondefense consumption of goods and services represents purchases made by the government for its immediate use. (The largest share of current defense and nondefense consumption is the compensation of federal employees.) The consumption of fixed capital is the use that the government receives from its fixed assets, such as buildings or equipment; as noted earlier, that consumption appears in the accounts as depreciation.

Transfer payments are cash payments made directly to individuals, private entities, or foreign nations. Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as paying Medicaid benefits) and consumption (such as hiring additional police officers).

Although both the total budget and the NIPAs contain a category labeled "net interest," the NIPA figure is larger. Various differences cause the two measures to diverge. The biggest difference is the contrasting treatment of the interest received by the Civil Service and Military Retirement Trust Funds. In the total budget, such receipts offset the payments made to those funds by the Treasury. In the NIPAs, however, those receipts are reclassified as contributions to personal income and do not appear on the ledger detailing the government's transactions.

The category in the NIPAs labeled "subsidies less current surplus of government enterprises" contains two components, as its name suggests. The first—subsidies—is defined as grants paid by the federal government to businesses, including state and local government enterprises. Subsidies are dominated by housing assistance.

The second part of the category is the current surplus of government enterprises, which are certain business-type operations of the government, such as the Postal Service. The operating costs of a government enterprise are mostly covered by the sale of goods and services to the public rather than by tax receipts. The difference between sales and current operating expenses is the enterprise's surplus or deficit. (*Government enterprises* should not be confused with *government-sponsored enterprises*, or GSEs, which are private entities established and chartered by the federal government to perform specific financial functions, usually under the supervision of a government agency. Examples of GSEs include Fannie Mae and the Farm Credit System. As privately owned, though publicly chartered, corporations, GSEs are not included in the budget or in the federal sector of the NIPAs.)

**Table D-2.**

## Projections of Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts

(In billions of dollars)

	Actual											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Receipts</b>												
Personal Tax and Nontax Receipts	903	887	949	1,025	1,093	1,169	1,252	1,341	1,438	1,638	1,807	1,926
Contributions for Social Insurance <sup>a</sup>	732	764	808	856	905	954	1,001	1,050	1,103	1,157	1,213	1,273
Corporate Profits Tax Accruals	169	175	211	244	275	290	299	309	319	331	343	355
Indirect Business Tax and Nontax Accruals	<u>110</u>	<u>106</u>	<u>109</u>	<u>112</u>	<u>116</u>	<u>121</u>	<u>125</u>	<u>129</u>	<u>133</u>	<u>137</u>	<u>140</u>	<u>144</u>
<b>Total</b>	<b>1,913</b>	<b>1,933</b>	<b>2,076</b>	<b>2,238</b>	<b>2,390</b>	<b>2,534</b>	<b>2,677</b>	<b>2,828</b>	<b>2,993</b>	<b>3,263</b>	<b>3,502</b>	<b>3,698</b>
<b>Expenditures</b>												
Purchases of Goods and Services												
Defense												
Consumption	311	335	345	352	360	369	378	389	399	410	421	432
Consumption of fixed capital	64	66	66	67	68	68	69	70	71	71	72	72
Nondefense <sup>b</sup>												
Consumption	165	178	184	187	189	193	197	202	206	211	215	221
Consumption of fixed capital	<u>30</u>	<u>32</u>	<u>34</u>	<u>36</u>	<u>39</u>	<u>41</u>	<u>43</u>	<u>46</u>	<u>48</u>	<u>50</u>	<u>53</u>	<u>55</u>
Subtotal	570	611	630	642	655	671	688	705	723	742	760	780
Transfer Payments												
Domestic	898	942	971	1,007	1,057	1,109	1,165	1,230	1,304	1,384	1,460	1,553
Foreign	<u>15</u>	<u>14</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>12</u>	<u>12</u>	<u>12</u>
Subtotal	912	956	984	1,020	1,070	1,122	1,178	1,244	1,317	1,396	1,472	1,564
Grants-in-Aid to State and Local Governments <sup>b</sup>	299	322	337	352	368	388	409	434	460	489	521	556
Net Interest <sup>b</sup>	213	202	210	241	262	270	272	273	271	266	254	233
Subsidies Less Current Surplus of Government Enterprises	<u>45</u>	<u>47</u>	<u>50</u>	<u>51</u>	<u>54</u>	<u>54</u>	<u>53</u>	<u>53</u>	<u>55</u>	<u>55</u>	<u>57</u>	<u>58</u>
<b>Total</b>	<b>2,039</b>	<b>2,138</b>	<b>2,211</b>	<b>2,306</b>	<b>2,409</b>	<b>2,505</b>	<b>2,601</b>	<b>2,709</b>	<b>2,826</b>	<b>2,948</b>	<b>3,064</b>	<b>3,192</b>
<b>Deficit (-) or Surplus</b>												
Deficit (-) or Surplus <sup>b</sup>	-126	-206	-135	-68	-19	29	76	119	167	314	438	506

Source: Congressional Budget Office.

a. Includes Social Security taxes, Medicare taxes and premiums, unemployment taxes, and federal employees' retirement contributions.

b. Assumes that discretionary budget authority for 2003 totals \$751 billion.